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ABSTRACT

Over the past eight years the Ford Foundation has granted some $20 million for support of activities related to the financing and management of public and higher education. This report describes some of these efforts. The Foundation's activities in public education include support of analysis of the legal background of school finance, analysis of the issues, inquiry by scholars, and litigation and legislative efforts. (Author/IRT)

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Paying for Schools and Colleges

A Ford Foundation Report

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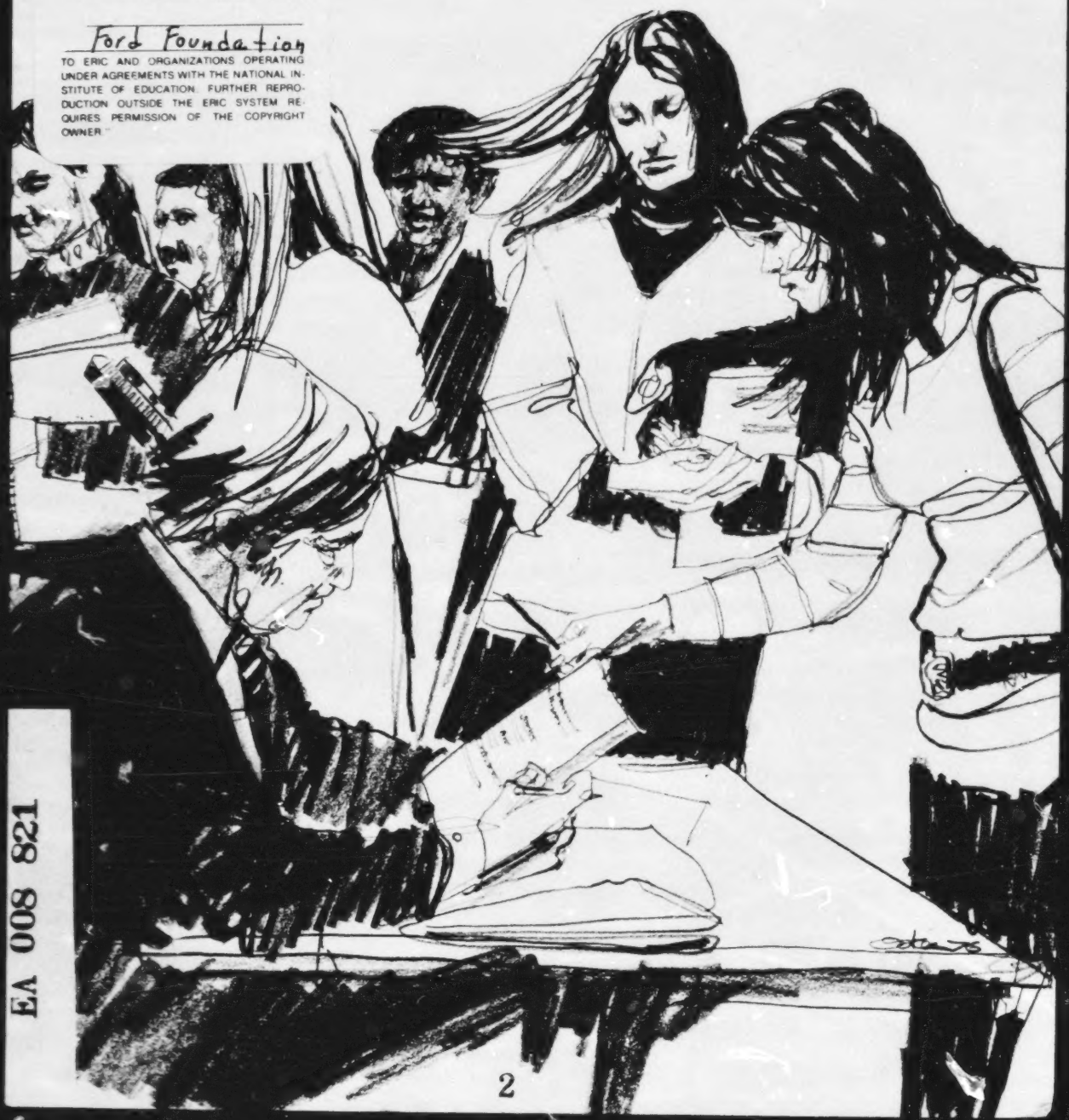

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Paying for Schools and Colleges

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America's system of financing education has come under increasing strain in recent years. In the 1960s public and higher education* experienced unprecedented growth, both in terms of dollars spent and numbers of students served. Spending on elementary and secondary education increased at an annual rate of 10 per cent, and enrollment grew by 30 per cent during the decade. College and university enrollment more than doubled, while expenditures more than tripled over the same period. By 1970 this exhilarating rate of expansion had begun to slow, exposing serious cracks in the financial underpinnings of this vast enterprise. Major questions were raised concerning both the equity and adequacy of the American system of educational finance.

Unlike most highly developed nations, the United States does not finance or control education centrally. At the precollegiate level each of the fifty states has authority to establish its own schools and, with the exception of Hawaii, each has delegated the operation of the schools to local school districts. Financing of this system is shared among local, state, and federal governments. In the case of higher education, governmental support is supplemented by tuition, endowment income, and private giving.

THE SCHOOLS. Public education is by far the largest activity of state and local government, consuming more than $57 billion annually, nearly a third of all state and local expenditures. Approximately 16,000 local school districts operate 87,000 schools, employ close to two and one-half million teachers and other staff, and enroll some 45 million pupils, nearly a quarter of the population.

Half the funds for the support of public elementary and secondary schools comes from local property taxes. State governments contribute an average of about 44 per cent of school revenues through a bewildering variety of state aid mechanisms intended to supplement and, to some extent, equalize educational expenditures. Only about 6 per cent of public school support comes from the federal government.

The system of financing public schools has come to be recognized as inequitable because of the grossly unequal distribution of local property wealth. School districts with high property valuations levy low tax rates but still are able to spend generously on public education. Districts with low valuations have less to spend even with above average tax rates. State education aid is supposed to equalize school expenditures but rarely does. The result is high taxes and underfinanced schools for people living in poor areas and lower taxes and better financed schools for those in wealthier districts.

Disparities in educational expenditures are found both among and within states. Statewide per-pupil expenditures, for example, ranged from a low of $838 in Mississippi to a high of $2,005 in New York in 1974-75. Divergences within states are even more pronounced. Among school districts in Massachusetts, they have ranged from $454 to $2,243; in New York the range is from $936 to $4,215.

Such disparities add up to a significant denial of equal educational opportunity in the United States.

This issue remains vital despite the well-publicized studies or statements of a number of critics who seek to cast doubt on the primacy of schooling *per se*. They have attempted to show that educational achievement depends less on the quality of the schools than on innumerable other factors, such as social class, a child's family, the quality of housing, and even allegedly inherent differences in the students themselves. While debate on these matters continues, the fact remains that

*In this report the term public education is used to describe the system of primary and secondary schools supported by public funds in all fifty states. Higher education refers to all postsecondary schools, primarily colleges and universities, which are sustained by both public and private funds.

those most directly concerned—the parents of schoolchildren, rich and poor alike—want good schools.

Districts with low property wealth frequently have high proportions of poor children, who usually need more educational services. Poor children also tend to be concentrated in large central cities whose fiscal burdens prevent them from providing expanded educational services. Yet the best teachers, educational programs, and physical facilities are concentrated in higher spending districts, principally well-to-do suburbs surrounding central cities.

Whether the U.S. system of public and higher education is adequately financed has always been a question of intense public debate but more so in the first half of the 1970s because of turbulence within the overall economic system. Simultaneous pressures from inflation and recession have strained the process by which society's scarce resources are rationed among competing demands for public services.

COLLEGES AND UNIVERSITIES. The financial problems of higher education are different in kind but equally as serious as those of the public schools; in addition to ever rising costs, colleges and universities are now confronting an era of little or no growth.* Beginning in 1969 college and university enrollment leveled off and, according to a recent study,† will rise only slightly over the next decade. The decline in growth has exacerbated a situation first noted in the early 1970s in which growth in institutional income was no longer keeping pace with expenditures. As a result, some higher education institutions face bankruptcy, and many others are being forced to abandon programs, dismiss professors, and hold down salaries. It has been estimated that over the next five years one out of every ten colleges may be forced by financial pressures to merge or close down.

For more than twenty years a major concern of the Ford Foundation has been to strengthen both public and higher education in the United States. The Foundation has spent some $1.5 billion in efforts to improve the training of teachers and administrators, to increase faculty salaries and student aid, to develop new curricula and teaching methods, to expand educational opportunities for minorities and women, to strengthen particular colleges and universities, to improve institutional management, and to advance understanding of how students learn.**

Over the past eight years the Foundation has granted some $20 million for support of activities related to the financing and management of public and higher education.†† This report describes some of these efforts.

*Because of declining birth rates, public school enrollment also peaked in the early 1970s and has been dropping since. The decline has resulted in the closing of some schools, cutbacks in hiring of new teachers, and increased community resistance to school budget increases.

†*More than Survival: Prospects for Higher Education in a Period of Uncertainty*, a commentary with recommendations of the Carnegie Foundation for the Advancement of Teaching. San Francisco: Jossey-Bass, 1975.

**See page 33 for a list of publications describing various Foundation programs in support of education.

††See page 35 for a list of major grants.

I. Reforming School Finance

Meeting new standards of equity in public school finance can be accomplished in most states only by major revisions of state and local tax and spending policies. Since most state-local tax systems are regressive—imposing a larger proportionate burden on those least able to pay—school finance reform has become integrally linked to long-standing efforts to change tax policy by imposing statewide property taxes, new state income and sales taxes, and reforms of property tax assessment practices. Indeed, a major impetus for tax reform in many states comes from efforts to resolve the school finance problem.

A major share of the Foundation's assistance to school finance reform is directed at helping states achieve a more equitable distribution of both tax burdens and educational services. In assisting these efforts, the Foundation has sought to strengthen the intellectual resources focusing on school finance problems, to improve understanding of public policy alternatives, and to assist various national organizations engaged in reform activities. These activities complement the Foundation's long-standing efforts to redress inequalities found in American society because of racial differences. Greater equality of opportunity has been promoted through such programs as scholarships for minority students and faculty, major long-term support for private black colleges and universities, assistance to civil rights and community development organizations, and housing and school desegregation efforts.

In supporting school finance reform, the Foundation favors no single concept of equity and maintains strict neutrality in the legislative process. It seeks to stimulate consideration of a broad array of reforms that seek to prevent the quality of a child's education from being determined by the accident of whether he or she lives in a rich or poor school district. The Foundation's assistance to school finance reform complements the support of other funding institutions active in the field, including the Carnegie Corporation and the federal government's Office of Education and National Institute of Education. In addition, substantial state funds have been made available for school finance studies.

LEGAL BACKGROUND

Legal analysis was the arena for the Foundation's first major effort in school finance. This choice reflected the events that catapulted the issue to national prominence.

Arrangements for financing public education have been under intense scrutiny since the mid-1960s. Two Midwestern scholars, Arthur Wise, a doctoral student at the University of Chicago, and John Coons, then a law professor at Northwestern University, are credited with developing the first legal arguments for school finance reform. Wise, in a doctoral thesis later published as *Rich Schools, Poor Schools,** suggested that the Fourteenth Amendment to the U.S. Constitution might make unconstitutional any school finance arrangement that systematically provided a lower level of educational services to the poor than the rich. Coons and two of his law students, Stephen Sugarman and William Clune, wrote a widely cited book setting forth a doctrine of "fiscal neutrality" to guide courts in the evaluation of school finance programs.** This doctrine simply states that the amount of money spent on a pupil should not depend upon the wealth of the school district in which he or she lives.

Other forces were converging to bring about change:

☐ The civil rights movement of the 1960s, in which spokesmen for the poor and minorities complained that public schools had failed to help their constituencies

Rich Schools, Poor Schools, by Arthur Wise. Chicago: University of Chicago Press, 1969.

***Private Wealth and Public Education*, by John E. Coons, William H. Clune III, and Stephen D. Sugarman. Cambridge, Mass.: Harvard University Press, 1970.

achieve social and economic parity with the rest of the population. Demands of the poor and minority groups for more equitable treatment by the public schools were a factor in the enactment of the 1965 Elementary and Secondary Education Act, which made increased federal funds available for the education of the disadvantaged.*

☐ The flight of the middle class from the cities, leaving behind an eroding tax base and a population made up increasingly of the poor, minorities, and the elderly.

☐ The growing public disaffection with increasing property taxes, which by the early 1970s had reached a point where three out of five bond issues for increased school spending were being defeated at the polls. Faced with a growing property taxpayers' revolt, local school districts began looking to the states for increased school aid, and several governors threatened with legal challenges to their states' school finance systems began to call for major school finance and tax reforms.

The school finance reform issue emerged at a time, moreover, when the Supreme Court under Chief Justice Earl Warren was extending the rights of the poor and minorities in such areas as voting, congressional apportionment, criminal appeal, and desegregation. Many of these cases were brought by legal advocacy groups litigating on behalf of the poor and minorities.

Meanwhile, individuals and organizations such as the Lawyers' Committee for Civil Rights Under Law (see page 15), the League of Women Voters (see page 18), the National Urban Coalition (see page 17), the American Federation of Teachers, the National Education Association, and the AFL-CIO were pressing the constitutional attack against inequitable finance systems.

...the court held on both federal and state constitutional grounds that the California funding scheme "invidiously discriminates against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors."

The first significant court opinion was handed down by the California Supreme Court in *Serrano* v. *Priest* (1971). Endorsing Coons' fiscal neutrality thesis, the court held on both federal and state constitutional grounds that the California funding scheme "invidiously discriminates against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors."** Other courts quickly followed suit. School finance laws struck down in Texas, Minnesota, Kansas, New Jersey, Arizona, and Michigan, and challenges to similar laws were brought in over forty other states.

Playing a central role in devising legal strategies for school finance reform was the Lawyers' Committee for Civil Rights Under Law, which was organized in the early 1960s by a group of prominent attorneys to defend persons who had been deprived of their civil rights. The committee, which has received major support from the Foundation, has served as a coordinator and clearinghouse for information on legal challenges to state school funding formulas. In the crucial *Rodriguez* case (see below), for example, it coordinated the filing of six *amicus curiae* briefs on behalf of such parties as the governors of Maine, Michigan, Minnesota, South Dakota, and Wisconsin; the National Urban Coalition; the National Urban League, and the League of Women Voters.

Some of the early school finance litigation was based on the equal protection clause of the Fourteenth Amendment to the U.S. Constitution. In March of 1973, however, a sharply divided U.S. Supreme Court, in *San Antonio Independent School District* v. *Rodriguez*, ruled 5-4 that the rights guaranteed by the Amendment did not include education. The court majority held that education was not a

*For an analysis of the effect of increased federal aid on public school finance, see page 15.

**Although the court struck down the California system of school finance, it did not prescribe a new system to take its place. This was left to the California Legislature, which has already adopted significant interim reforms and is considering others.

fundamental federal constitutional right and that the Texas system of school finance did not discriminate against any constitutionally definable class of poor people.

The *Rodriguez* decision was a major setback for the school finance reform movement. In its decision, the court majority said that the Texas system of financing education, though imperfect, was apparently not failing to provide students the minimum skills necessary for the exercise of their basic constitutional rights, such as the right to vote. Moreover, the system encouraged a large measure of local participation and control in school matters. The court noted, however, that tax systems "may have relied too long and heavily on the local property tax" and that "innovative new thinking as to public education, its methods and its funding is necessary to assure both a higher level of quality and greater uniformity of opportunity." But the ultimate solution of these problems, the court said, "must come from lawmakers and from the democratic pressure of those who elect them."

Rodriguez left a number of loopholes under which future school finance litigation could be brought on federal grounds. For example, a case could be brought in federal court challenging systems that resulted in absolute deprivation of all educational opportunity (e.g., if handicapped students, the mentally retarded, or non-English speaking children were denied schooling). Other cases might be brought when school finance systems resulted in denial of education necessary to exercise First Amendment rights, the establishment of a constitutionally "suspect" class of individuals (i.e., low income) that coincided with school district poverty, and race discrimination where intent to discriminate could be proved.

More significantly, the court also suggested the possibility of legal actions on the basis of *state* constitutions and statutes. Just two weeks after *Rodriguez* was announced, the New Jersey Supreme Court, in *Robinson* vs. *Cahill*, unanimously held that the New Jersey finance system violated a clause in the state constitution requiring the establishment of a "thorough" and "efficient" system of schools. All

pending school finance litigation has moved to state courts since the *Rodriguez* decision.

State court decisions have significantly widened the legal grounds on which school-related litigation can be brought. For example, if, as *Robinson* vs. *Cahill* suggests, a state has established qualitative standards for its system of education such as "thorough and efficient," "general and uniform," or "educational programs of high quality," cases can be brought showing that these standards are not being achieved with regard to certain groups of students. Thus, "accountability" legislation setting forth reading and mathematics achievement goals could be used to require states to devote more resources to districts where students fall short of these standards. Several cases have been brought based on this theory. For example, school districts have been required to provide bilingual education to children who do not understand English. Other cases have established the right of mentally retarded children to an appropriate education.

Although some forty states now attempt to assess the "outcome" of public education through statewide testing, none has yet devised a system for utilizing assessment data in school funding schemes. In 1975 the Educational Testing Service in Princeton, N.J., organized an Educational Policy Research Institute to assist states in this effort by conducting economic analyses of school effectiveness and refining the use of educational assessment data for policy purposes. The institute approaches educational assessment from several points of view. For example, Arthur Wise, scholar-in-residence at the institute, is studying problems arising out of the increased tendency to litigate on the basis of educational failure, at a time when there is no agreement on how schools should define educational success or failure. The institute is also developing, first for New Jersey and later for other states, a school finance computer simulation that would incorporate school performance data. Headed by Joel Berke (see page 15), the institute has taken over the functions of ETS' Center for Educational Assessment, which has assisted states in developing a variety of assessment programs. Foundation support for both the center and the institute has totaled $624,750.

The legal challenges have accelerated state efforts to revise their property tax and school finance systems. In the 1973 legislative sessions alone, for example, over thirty governors asked for significant state tax reform, and twenty-one governors asked for school finance reform. Since 1973 important school finance measures have been passed in Florida, Colorado, Minnesota, Illinois, Maine, Montana, Kansas, Utah, California, Michigan, and Connecticut. Many of these changes were not merely patchwork improvements; they were major overhauls promising substantially increased resources for school systems long victimized by inequitable tax systems. Supporting these reforms was a new coalition of interest groups, a number of which received Foundation support for their work (see page 15). Broadly based and with ties to minority communities, the organizations have become a major force for change within individual states.

SCHOOL FINANCE ISSUES

One of the central issues in school finance reform is whether a greater degree of centralization of finance will lead to increased state control of local schools. Local boards of education, composed of lay citizens, have traditionally exercised considerable authority over school operations, although their decision-making powers have been eroded over the years by delegation to professional administrators and the imposition of an increasing body of regulations by other governmental agencies, particularly state legislatures. Critics of fiscal reform fear a further reduction of power of local school boards, even though many of these critics endorse greater equity in school expenditures.

The fear has been expressed principally about plans, known as "full state funding," in which the state would take over all educational costs. Under a typical plan, a statewide property tax would be imposed and the funds distributed equitably to local districts. Other plans have been developed, however, that would centralize the collection and distribution of an increased proportion of school funds while simultaneously permitting decentralized decision making about education. One such mechanism is "district power equalizing" (DPE), a concept advanced by Coons and already adopted in part by several states that have revised their school aid formulas. Under this plan, the state permits local districts to determine the level at which they will tax themselves but subsidizes poorer districts that are unable to raise sufficient funds even at exorbitant tax rates. In effect, the state guarantees that a poor district will have the same amount of money to spend as a rich district when it taxes at the same rate. Some DPE plans also have "recapture" clauses under which a rich district, if it raises more money than a poorer district at a specified tax rate, contributes the excess to the state which redistributes it to poorer districts.

Thus school districts retain the option of selecting their expenditure level and corresponding tax rate. Moreover, a district with high property valuation wishing to raise extra money for its schools may do so but is forced to tax itself beyond the costs of its own program and contribute to the needs of less wealthy districts. A DPE plan would probably result in greater spending differences than a full state assumption of educational costs, although the differences would not be closely linked to differences in the local property tax base.

Both full state funding and DPE, however, present problems. Charles Benson, a school finance scholar at the University of California (Berkeley), has listed several major "problems of transition:"*

1) Rich districts would have the incentive to shift educational expenditures (for example, school library costs) from the school budget to the city budget, where they might be more protected from equalization. Poor districts would have the opposite incentive (shifting city library expenses, for example, to the school budget).

2) Rich districts would probably have to raise property taxes (because they would be receiving less state aid), thereby imposing heavier financial burdens on any poor families who live in those districts.

3) Large cities generally have high per-student property tax bases and therefore might have to raise their tax rates. But large cities are already overburdened by large numbers of disadvantaged students and by higher costs of municipal services such as police, waste disposal, hospitals, lighting, recreation, and transportation.

Remedies have been suggested for some of these problems. One would set a ceiling on property taxes paid by low-income families, and another would transfer to the state a greater proportion of the costs of special educational programs for the handicapped and the disadvantaged. Others would decrease differences in property wealth by removing commercial and industrial property from the local tax base or by consolidating rich and poor school districts.

THE SCHOLARS

For most of this century the study of school finance has been intellectually barren. University professors of school finance were almost without exception former school administrators without advanced training in either economics or political science, the two social sciences most directly related to school finance. Their approach to the subject had not changed significantly from that of Elwood P.

*School Finance in Transition, edited by John Pincus. Cambridge, Mass.: Ballinger Publishing Co., 1974.

Cubberley, an educational historian, who in 1905, in his *School Funds and Their Apportionment,* proposed that state-aid distribution systems should equalize school expenditures and tax burdens. Leading scholars virtually ignored the economics of education because the field lacked prestige or because they were concerned with larger issues of public finance or economic theory.

This situation began to change in the late 1950s and the 1960s with the huge growth of public education expenditures. Economists and political scientists found they could no longer ignore the largest activity of state and local governments. Taxpayer resistance to increasing property taxes, the constitutional challenges to school tax and expenditure systems, and questioning of the effectiveness of expenditures on public education accentuated the need for strengthening the intellectual resources for dealing with educational policy issues. Although they did not deal with the issues of equity in school finance, economists such as Professor Theodore Schultz of the University of Chicago helped expand economic theory in the 1950s and early 1960s by calling attention to how education contributes to economic growth and the distribution of income.* Other scholars such as Charles S. Benson, Jesse Burkhead, and H. Thomas James brought new analytical insights into the field of school finance.

As school finance issues moved to the front of the public agenda, a new network of scholars began to focus attention on the field. Trained in such disciplines as law, economics, political science, and public policy, these scholars share no single policy preference about how to solve the problems posed by school finance inequities. They include John Coons, Robert Mnookin, and Stephen Sugarman, Charles Benson, and James Guthrie of the University of California (Berkeley), Alan Campbell of Syracuse University, Donna Shalala of Teachers College, Columbia University, Michael Kirst of Stanford University, Walter Garms of the University of Rochester, Robert Reischauer and Henry Aaron of the Brookings Institution, Alan Thomas of the University of Chicago, and Dick Netzer of New York University.

In effect, the state guarantees that a poor district will have the same amount of money to spend as a rich district when it taxes at the same rate.

Because of the complexity of school finance issues and the need for more experts in the field, five universities (Berkeley, Stanford, Columbia, Chicago, and Syracuse) have begun new training and research programs with assistance from the Ford Foundation. The programs, which will produce upwards of fifty Ph.D.s, combine training in economics, law, business, or political science and applied research in actual school finance reform. For example, students at Columbia did a thorough analysis of Connecticut's educational finance laws for a legislative commission and helped develop a computer simulation that predicts the impact of alternative funding schemes. As a result the commission recommended revision of the existing school finance system which was adopted by the legislature but only partially funded because of the state's uncertain fiscal situation. The Columbia program is directed by Donna Shalala, who was trained in political economy at Syracuse University Maxwell School for Public Affairs, is well known in state and local government fiscal circles, and has served on various groups dealing with New York's fiscal crisis.

At Stanford, graduate students under the direction of Michael Kirst serve as interns with state legislatures and gubernatorial staffs studying school finance problems. Several have worked for a joint committee of the Oregon legislature, and others have interned in New Jersey with a National Urban Coalition school finance reform project. Trained at Harvard as a political economist, Kirst has worked in

The Economic Value of Education, Theodore W. Schultz. New York: Columbia University Press, 1963. Professor Schultz's work was partially supported by the Foundation.

Washington as an associate director of the White House Fellows program, and as an education analyst in the Bureau of the Budget. He is a member of the California state board of education.

At Berkeley, Coons, Benson, Guthrie, Mnookin, Sugarman, and David Kirp form a group of scholars affiliated with the Childhood and Government Project, an ambitious program of research, training, and dissemination focusing on the governance and finance of public education and other public institutions concerned with the intellectual development of children.

Funded by the Ford Foundation and the Carnegie Corporation, the project has developed model legislation and litigation strategies relevant to governmental policies toward children and has begun to formulate a "political economy of childhood" — an analytical framework for examining how legal authority and economic responsibility for children are allocated among the family, the child, and the state. The Berkeley group is examining such issues as family and government spending on children, moral and political education, foster care, school governance, and teacher credentialing requirements. For example, Mnookin, a law professor, has written a model foster care law which would narrow the legal grounds for taking children away from their parents and require the state to provide services for troubled families. Benson is studying how residential location determines the quality and quantity of services to children, and Guthrie has advocated a concept for decentralizing education decision making that is currently being tried out in several states and localities. Coons and others are examining ways in which families can be given greater authority over the lives of children.

Other members of the group are preparing a treatise on American law as it relates to children, examining the political and social views of teachers, devising legal strategies for challenging unnecessary educational requirements for certain jobs, investigating how "classification"—tracking and other means of separating children according to learning ability—can be arbitrary and perhaps unconstitu-

tional, and studying the legal basis for selective exemptions to the compulsory attendance laws when schools fail to educate.

Members of the group have participated directly in school finance reform efforts. Benson, Guthrie, and Coons testified in the *Serrano* litigation in California, which reaffirmed that the state's system of finance violated the state constitution. Project lawyers submitted *amicus curiae* briefs in *Rodriguez* and other school finance cases. They also have been examining alternative legal approaches in a case in which a San Francisco high school graduate claims that the school district was negligent in graduating him even though he could not read. The suit, the nation's first based on a theory of educational malpractice, could have broad implications for educational policy.

The final product of the group's work will be a collaborative volume drawing upon the project's research to present two philosophically contrasting schools of thought about the political economy of children, each of which will suggest frameworks for the formation of public policy toward children.

Another study supported by the Foundation, by economists Samuel Bowles and Herbert Gintis of the University of Massachusetts, deals with the relation between the economic system in the large and the results of schooling.* Writing from a radical perspective, they claim the principal function of American schools is not to provide opportunities for individual development and economic success but to prepare recruits for subordinate roles in the factories and bureaucracies of large corporations. Schools, they argue, have become instruments of social control and do not alter existing distributions of income and wealth or even discriminate fairly according to relative ability. Education thus serves the class interests of the privileged by enabling them to transmit their wealth and station in life to their own children.

REFORM MOVEMENTS

Under the impetus of the legal challenges and often with the advice of the new breed of school finance expert, about fifteen states have already enacted significant tax and school finance reforms. In another twenty states reform is in process or languishing. In the remaining states, school finance systems do not display the kind of structural inequities addressed by *Serrano*.

In several of the states that have enacted or considered reforms, individual citizens and special interest groups have played an important role in enlarging public and governmental awareness of school finance inequities. The Ford Foundation has provided funds for nonpartisan analysis of such issues to citizens' committees in two states (Florida and Maryland). In two others (Oregon and New York) that have considered reforms, the Foundation has directly assisted legislative committees and state agencies through support of research.

Florida. One of the most important pieces of school finance legislation, which other states are beginning to adapt to their own circumstances, was passed by Florida in 1973. The Southern Regional Council called it "the most impressive legislation reforming school finance in the South . . and, perhaps, throughout the nation." It does a better job of equalizing educational expenditures than any other state formula with the exception of Hawaii and has made some interesting innovations in school governance and accountability.

Florida's reform was helped by the fact that the state had placed less reliance than most states upon local property taxes for support of the schools. In 1971 when Governor Reubin Askew appointed a citizens committee to make recommendations for school improvements, some 55 per cent of operating revenues for public education came from state sources, 35 per cent from local sources, and 10 per cent from

*Schooling in Capitalist America, by Samuel Bowles and Herbert Gintis. New York: Basic Books, 1976.

the federal government. As in most of the Southeast, state aid was distributed to local school districts through a "minimum foundation program," which gave somewhat more funds to low-wealth than to high-wealth districts. Measured by the *Serrano* criterion that the amount of money spent on a pupil should not depend upon the wealth of the community in which he or she lives, the Florida system was a good deal less inequitable than that of most other states. Still, there were significant expenditure differences between high-wealth and low-wealth school districts.

The impetus for educational reform in Florida stemmed from a desire not only to simplify the complex minimum foundation plan, but also to devise a system of state assessment and review of local performance and to coordinate the financing of public education with higher education. The Governor's Citizens Committee on Education was well designed for these tasks. It included six state legislators from both parties, and a sprinkling of the state's influential civic and business leaders. The chairman was Fred Schultz, a former speaker of the Florida House of Representatives who was committed to equalization of educational opportunities. The committee's composition and leadership, together with the availability that year of a $300 million state budget surplus, were later credited with having a lot to do with the enactment of many of its recommendations by the Legislature. And the committee's work was given added credibility by a group of expert school finance consultants.* The finance portion of the committee's study was supported by a $93,000 Ford Foundation grant.

...the committee recommended that effective decision making with regard to education be shifted from the state and district level to the individual school in order to accommodate the diverse needs of students.

In its report, issued in early 1973, the committee strongly endorsed the *Serrano* principle: "Educational resources provided a child should not be a function of the wealth of the school district where he or she happens to live. It is the wealth of the entire state of Florida that should stand behind each Florida school child. Consequently, aid provided by the state should equalize educational opportunity and compensate for differences in local school district wealth."

To equalize educational expenditures in all of Florida's sixty-seven counties, the committee recommended and the Legislature adopted a plan establishing a base amount to be spent on the education of each student. This base would then be weighted (increased) to reflect the higher cost of living in some counties or the higher cost of special programs, such as vocational education and education of the handicapped. The state also assumed almost the entire burden of school construction and a substantial part of the cost of pupil transportation. As subsequently amended, the plan mandates virtually uniform property tax rates and substantially equal per-pupil expenditures throughout the state.

With regard to school governance and accountability, the committee's report was also far reaching. Arguing that redistribution of dollars alone was not enough to assure equal educational opportunity, the committee recommended that effective decision making with regard to education be shifted from the state and district level to the individual school in order to accommodate the diverse needs of students. This aspect of the report incorporated many of the ideas of Berkeley's James Guthrie for decentralized decision making in education.

Specifically, the committee recommended, and the Legislature adopted in modified form, the creation of school advisory councils at the school building level. The council is responsible for advising school authorities on such matters as budget, personnel, and program. In addition, every school must issue, with the assistance of the school advisory council, an annual report of school progress, which includes

*Michael Kirst of Stanford, Walter Garms of Rochester, and James Guthrie of Berkeley.

comment on such matters as pupil achievement, curriculum, finances, and personnel. This report is distributed to each parent, to the media, and posted in the school. A statewide school-by-school management information and assessment system is supposed to keep the councils informed on the relative position and performance of their schools.

To ensure that schools with the most disadvantaged students are not shortchanged, Florida has also moved toward school-site budgeting, in which each school has a formal budget entitlement. The school advisory council is to participate in the formulation of this budget. School-site budgeting is intended to sensitize parents to the fact that state aid is "earned" (on the basis of the different needs of each school's pupils) so that they will insist on their formal entitlement. Such a system is expected to help correct a situation the committee had found in some districts—schools with many children performing poorly on standardized tests yet spending less money than schools with more advantaged students.

Maryland, Oregon, and New York. In other states where the Foundation has directly aided analyses of school finance issues, reform movements have run into difficulties. In Maryland, for example, a nonpartisan citizens commission in 1971 proposed a three-year phase-in of full state funding in which per-pupil expenditures in every district would be brought up to that of the highest spending district. The funds were to come from state assumption of an existing local income surtax and the use of other statewide taxes, including a more equitable income tax and a corporate franchise tax. The plan failed to win widespread support because of fears that it would increase state control of education and raise state taxes.

The plan's failure points up a problem increasingly encountered by reform movements—the reluctance of governors and legislators to increase state school aid at a time when state revenues are shrinking.

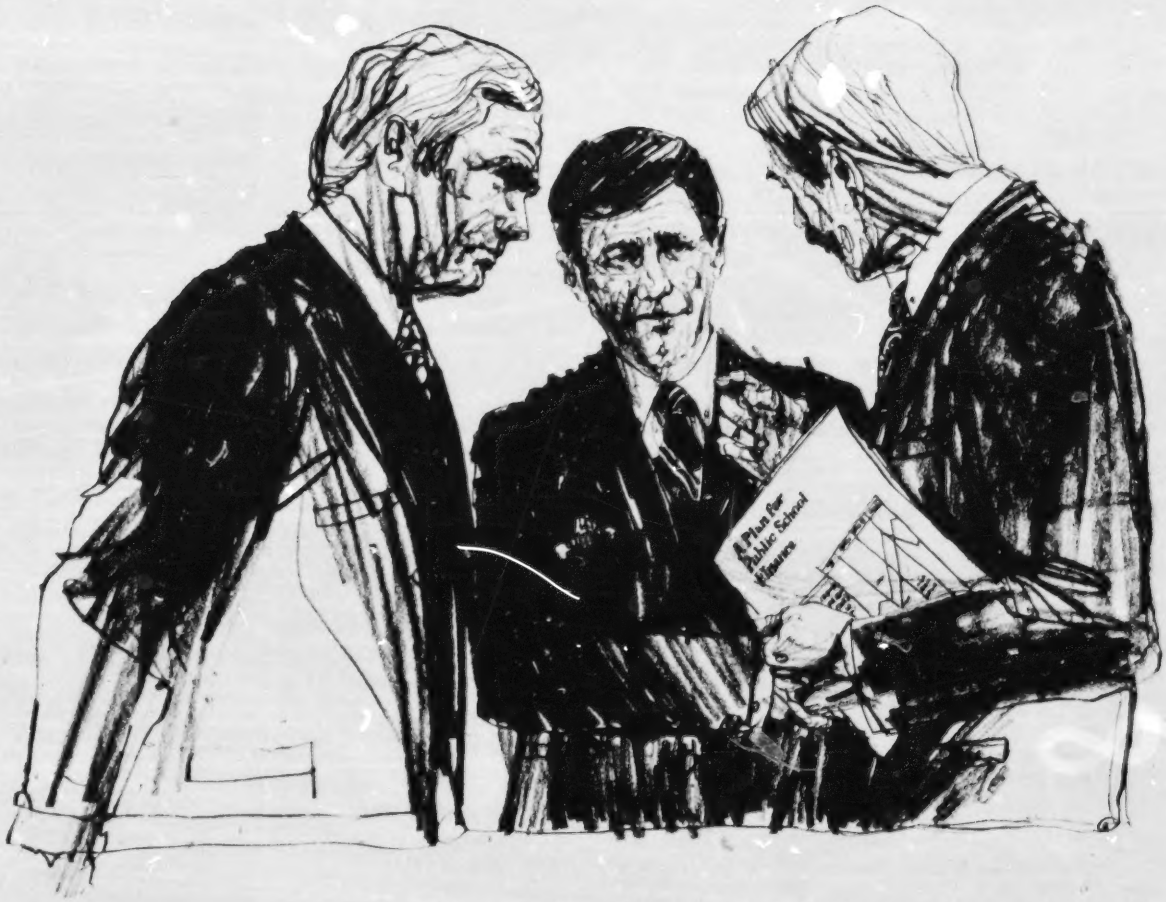
Similar difficulties were encountered in Oregon, where a special bipartisan legislative Committee on Equal Educational Opportunity in December 1974 recommended a plan that would have eliminated the advantages of local wealth while taking into account the special educational needs of the handicapped and disadvantaged and the preference of some communities for superior educational programs. A $145,000 Foundation grant helped the committee obtain the services of school finance experts and assisted the development of a school finance data system.

The Oregon plan was a variant of the district power equalization approach (see page 8), in which school districts of varying wealth applying the same tax rate on taxable property would have the same number of dollars to spend per child. If the district did not have enough taxable property to produce the minimum expenditure, it would receive the balance from the state. Districts able to raise the minimum amount would receive reduced state aid or, in the case of the wealthiest districts, none at all.*

The plan also would have set up three regional equalization districts. A uniform tax would be levied on all property in the regional districts and the receipts distributed to school districts in the region on a per-pupil basis. The purpose of this tax would be redistribute, at least to some extent, the extra revenue that property-rich districts raise above the state-guaranteed amount. It would also ensure that regional facilities such as nuclear power plants, dams, and pipelines paid a fair share of school taxes in the larger region of which they were a part. A final feature of the plan was a system of categorical state grants for handicapped and disadvantaged children, for small schools, and for transportation.

The plan failed to win adoption in the Legislature because of a shortage of

*The inequities in Oregon's school finance system are unusually glaring, with property wealth per pupil varying from $705,000 in the richest districts to $19,000 in the poorest. State support of the schools remains among the lowest in the nation.



state funds and the opposition of some legislative leaders from districts that would have received less state aid under the plan. The plan's failure points up a problem increasingly encountered by reform movements—the reluctance of governors and legislators to increase state school aid at a time when state revenues are shrinking. To be successful, most school finance reforms usually require the promise of more aid, rather than a simple redistribution of funds from rich to poor districts. Plans that significantly reduce state aid to wealthier districts invariably run into opposition. In states where reforms have been successful, surplus funds usually have been available to cover the increased aid.

Reform in New York State has been under consideration since the early 1970s, when a state-appointed commission recommended that schools be financed entirely by the state through a statewide property tax. That effort failed, in large part because the plan would have required major increases in school aid in a state already straining at the limit of its taxing capacity.

Pressure for reform has continued to build in New York as a result of both heightened resistance to local property taxes and several court actions attacking the constitutionality of the present system. Although reform in New York is expected to be a long, tedious process requiring considerable political compromise, the state in 1975 embarked on a major study that is expected to analyze the newer approaches to school finance. The state has committed $1 million to the study, and a $180,000 Foundation grant is assisting the development of computer simulations of various approaches and providing the services of outside experts. Graduate students from Foundation-assisted training programs at Columbia and Syracuse are helping in the studies.

THE IMPACT OF FEDERAL AID

Although federal aid to education represents only a small portion (about 6 per cent) of total elementary and secondary school expenditures, a persistent question has been whether it has helped to reduce or reinforce inequities in school finance.*

In a Foundation-supported study of federal aid to 573 school districts in five states (New York, Massachusetts, Michigan, Texas, and California) from 1965 through 1968, researchers at the Syracuse University Research Corporation found that the assistance had done little to equalize educational expenditures.** Existing federal aid, the study said, was "patently insufficient to overcome the fiscal crisis of urban education," and "many individual aid programs give more help to rich districts than they do to poorer ones."

For example, the researchers found that rural and small-town school districts consistently received more federal aid per pupil than metropolitan districts and that in California, Texas, and Michigan nonmetropolitan districts received an average of 50 per cent more aid per pupil than metropolitan districts.

Federal aid also failed to close the gap between cities and their suburbs in total educational expenditures. With the exception of Michigan, suburbs in the five states had an average of $100 more available per pupil than the central cities. In Massachusetts, although central cities were granted twice as much federal aid per pupil as the suburbs, suburban school districts still received 15 per cent more revenue per pupil from all sources than central cities.

Although the study succeeded in generating wide public discussion and concern, federal aid allocation formulas continue substantially unchanged.

THE NATIONAL ORGANIZATIONS

Among the leaders of school finance reform are several national organizations that have assisted in litigation, dissemination of information, training, and other activities. They include the Lawyers' Committee for Civil Rights under Law, which has been involved in nearly all the significant court cases, the National Urban Coalition, which has helped to train minority-group leaders in five states in reform activities, the League of Women Voters, which has helped educate voters in four states that are on the verge of school finance reform, and the National Conference of State Legislatures, which has assisted state legislators in analyzing specific reform proposals. Substantial support has been provided by the Foundation for all these groups.

The Reform Lawyers. Playing a central role in shaping both the pre- and post-*Rodriguez* legal strategy has been the Lawyers' Committee for Civil Rights under Law in Washington, D.C. The committee since 1969 has served as a coordinator and clearinghouse for information on legal challenges to state school funding formulas. Its School Finance Project, supported by Foundation grants totaling $1.1 million, has been directed by three attorneys, Sarah Carey, Stephen Browning, and David Long, and has included such activities as:

☐ Providing legal assistance to plaintiffs in such cases as *Robinson* v. *Cahill* (New Jersey), *Thomas* v. *Stewart* (Georgia), *Board of Education, Levittown* v. *Nyquist* (New York), and *Horton* v. *Meskill* (Connecticut). The latter case found Connecticut's system of school finance unconstitutional and is on appeal to the state's Supreme Court. The New York case, which went to trial in early spring 1976, is

*Federal aid to education, which totals more than $3 billion annually, supports such activities as special educational programs for the disadvantaged and the handicapped, vocational and agricultural education, and science and language instruction.

**_Federal Aid to Education: Who Benefits? Who Governs?_, by Joel S. Berke and Michael W. Kirst (Lexington, Mass.: D.C. Heath and Company, 1972). Stephen K. Bailey of SURC and Alan K. Campbell and Seymour Sacks of the Maxwell School of Citizenship and Public Affairs at Syracuse also participated in the study.

of considerable significance because of the complexity of the issues, the involvement of both urban and poor suburban school districts, and the huge size of the state's school expenditures.

☐ Maintaining a clearinghouse file of school finance legal materials for use by attorneys, school administrators, public officials, legislators, the press, economists, and private citizens.

☐ Conducting workshops for lawyers, legislators, educators, and the press on legal strategy and the implications of court decrees dealing with school finance.

☐ Surveying state constitutional provisions and state laws dealing with education to identify constitutional standards for minimal levels of education that might be utilized by states contemplating educational reforms.

☐ Assisting legislative bodies on request in devising school finance reforms.

In a review of spending inequalities *within* school districts (frequently greater than among school districts), the Lawyers' Committee found that nearly all of eighty large districts receiving federal compensatory education funds for disadvantaged students (Title I of the Elementary and Secondary Education Act of 1965) were violating the law's "comparability" requirement that local per-pupil expenditures and services must be substantially equal among schools within a school district. The purpose of the requirement is to ensure that federal funds supplement and not supplant state and local support of the schools. A committee analysis documenting extensive noncomparability in Philadelphia contributed to a court decision invalidating the city's Title I program, and requiring the equal distribution of local school funds.

The use of state constitutional provisions, such as New Jersey's requirement for a "thorough and efficient system of free public schools," to guarantee minimal educational performance has implications beyond the financing of public education. In *Robinson* v. *Cahill,* the New Jersey Supreme Court, for example, ordered the state not only to change its school financing system to achieve a more equitable distribution of educational resources but also to establish and enforce standards that would enable all students to compete in the labor market and become effective citizens. In states having constitutional clauses similar to New Jersey's, litigation is being used to attack deficiencies in public education, particularly with regard to the poor and disadvantaged.

In New Jersey and Pennsylvania, the Education Law Center, a public interest law firm founded with Foundation support in late 1973, has taken the initiative in using legal action to define educational rights.* Directed by Paul Tractenberg, a Rutgers University law professor, the center has been focusing on the *Robinson* case, the rights of handicapped children, and the provision of less than adequate educational services. For example, the center has been instrumental in assuring that placement of children in special classes is accompanied by due process procedures and after consultation with parents. The center has also played a role in developing regulations guaranteeing parents' access to the school records of their children.

In other cases, the center has challenged the practice of charging parents a fee for school field trips and the adequacy of physical facilities in a school district that has been on double session for a dozen years. It is defending the use of community volunteers in an alternative high school program—a practice that has been challenged by the district's teacher association. The center has also published two parent handbooks—one dealing with the rights of handicapped children and the other with the elimination of sexism in the schools.

*The Foundation's support of the public interest law movement, in fields ranging from consumer protection to environmental quality, is described in *The Public Interest Law Firm: New Voices for New Constituencies,* available on request.

The center is also helping the New Jersey Legislature and educational authorities define what is meant by a "thorough and efficient" education so that the state can comply with the court's mandate. Since the court established a quality standard for the provision of educational services, equality of educational opportunity will not be attained solely by equalizing dollars spent per pupil. Thus the existence of large disparities in achievement between groups of children with comparable intellectual and physical capacities could indicate a deficiency in the educational process that the state must remedy. For example, Tractenberg points out that in Philadelphia, there is a cluster of schools, from elementary to senior high, where more than 70 per cent of the students at every testing point perform below the norms established as the standard for functional literacy. The center is considering a case that would force the school system to hire better teachers, adopt new programs, and take other steps to help these children meet a higher standard of educational achievement.

Tractenberg, who is a key lawyer in the *Robinson* case, argues that the establishment of a qualitative educational standard will require a wide range of new educational services to meet the varied needs of individual pupils. The educational system, he believes, eventually will have to make available better learning opportunities for the handicapped as well as the gifted, early childhood and adult education to help the disadvantaged overcome their difficulties, optional modes of learning such as work-study programs and alternative schools, and other educational programs that will help to achieve a "thorough and efficient" system.

Urban Schools. One of the central problems connected with school finance reform is whether or not it will benefit large city school systems, with their substantial concentrations of minority and other disadvantaged students. Minority groups, including the poor, handicapped, and non-English-speaking, are among the major victims of inequitable school finance systems because they have greater educational needs and are more expensive to educate.

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The National Urban Coalition, which follows this issue closely, found in a study that reform measures designed only to equalize school expenditures by eliminating the effects of property wealth differences among districts would not be beneficial for most large cities.* For example, it found that the district power equalization approach (see page 8) could *reduce* the average annual expenditure per pupil in thirty-four cities by more than $100.

Some states have attempted to take into account the higher cost of urban education in their reform packages. Florida provides extra funds for cost-of-living differences among school districts and for special programs for the handicapped and disadvantaged (see page 12). Kansas, Rhode Island, Maryland, Connecticut, and Virginia, require allocation of equalization funds on the basis of income as well as property wealth (a help to cities in most of these states). Michigan gives extra aid to districts with unusually heavy total tax burdens. And seven states provide extra funds to districts for their low-income students.

Minority groups have frequently been excluded from school finance reform efforts because they do not have the background for analyzing the issues nor the leaders to represent their interests. To help insure that the needs of these groups are not overlooked in new legislation, the National Urban Coalition since 1971 has provided technical and financial assistance to school finance reform groups representing urban minority interests in seven states (Michigan, California, Texas,

**Urban Schools and School Finance Reform: Promise and Reality*, by John J. Callahan, William H. Wilken, and M. Tracy Sillerman (Washington, D.C.: The National Urban Coalition, 1973).

New Jersey, South Carolina, Ohio, and Colorado). The coalition has also supported research on school finance, including a 1971 study of Michigan's system which has been widely cited in court decisions.* A more recent study examined the impact of *Serrano*-inspired reforms in ten states and of the mechanisms states have used to adjust their aid to meet fiscal problems and needs.** The coalition's activities have been supported by Foundation grants totaling nearly $1 million. The Carnegie Corporation has also contributed substantial funds to the coalition and its affiliated state groups representing minority interests.

In Texas, the coalition has supported the International Development Research Association, a San Antonio group led by Dr. Jose Cardenas, former superintendent of San Antonio's Edgewood School District (the same district involved in the Supreme Court's *Rodriguez* decision). In an effort to focus public attention, particularly in the Mexican American community, on the inequities of the Texas school finance system, Cardenas' group has held meetings throughout the state and has helped organize associations of Mexican American school board members and educators. It has published in English and Spanish a "Primer on Texas School Finance," which explains in simple language the complexities of the system. One of the group's founders, Dr. Earl Lewis of San Antonio's Trinity University, played a substantial role in a proposed change in the education article of the Texas constitution that would have required a more equitable distribution of school funds. However, the proposal was defeated.

In research aimed at providing a basis for reinstating the *Rodriguez* litigation, the association has been attempting to prove that the Texas system of school finance has created a "suspect class" that has suffered injury. In its reversal of *Rodriguez,* the Supreme Court expressed doubt that such a class existed because no proof had been presented that the poorest people were clustered in the poorest school districts. The association has also developed criteria for the evaluation of school finance reform proposals that would take into account differences in tax wealth, tax effort, pupil needs, and municipal service costs in equalizing educational expenditures.

In New Jersey, the National Urban Coalition has assisted the New Jersey Education Reform Project, which has been alerting state officials and the public to the potential impact of the *Robinson* decision on minority students and urban school districts.

CITIZEN EDUCATION

Another problem hampering school finance reform in many states is the inadequate level of public, and even legislative, understanding of the issues. School finance problems are inherently complex, involving intergovernmental transfers of funds, intricate aid formulas, and multiple systems of taxation. One of the most effective national organizations working to educate the public on a range of policy issues is the League of Women Voters Education Fund. In 1973 the league undertook with Foundation support a program of citizen education in school finance in three states—New Jersey, Vermont, and South Carolina.

Forming coalitions with such other groups as school organizations, chambers of commerce, farmers' groups, and Urban Leagues, the state Leagues of Women Voters have used publications, workshops, film strips, and speakers to educate

*_Schools and Inequality_, by James W. Guthrie, George B. Keindorfer, Henry M. Levin, and Robert T. Stout (Cambridge, Mass.: The MIT Press. 1971). The authors' primary thesis is that the quality of schooling available to a student is determined to a substantial degree by his social and economic circumstances. Moreover, contrary to the findings of earlier investigators that academic achievement is determined by socioeconomic status and not by school quality, the authors maintain that such factors as quality of physical facilities, ability of instructional staff, and adequacy of instructional materials do make a difference in academic performance.

**"Geographic Adjustments to School Aid Formulae," by Robert O. Bothwell (director of the National Urban Coalition's School Finance Reform Project), Richard Johnson, and G. Alan Hickrod in _School Finance Reform: A Legislator's Handbook_ (Washington, D.C.: National Conference of State Legislatures, 1976).

citizens on the inequities and inadequacies of existing school finance systems and on the implications of particular reform proposals. In South Carolina, for example, the league helped organize an informal coalition made up of about ten groups with ties to approximately 70 per cent of the population. The coalition set out to create a climate of reform on school finance by publishing pamphlets and a newsletter, preparing a slide show, holding symposia for legislators and journalists, and sending speakers to meetings throughout the state. They talked about the inequalities of the present system, pointed out how it victimized the middle class, and showed how the vast majority of school districts were paying more and receiving less than the most favored districts. The effort resulted in the preparation of a new school finance plan for consideration by the Legislature.

Also working to improve equity in school finance is the Education Task Force of the National Conference of State Legislatures (NCSL). NCSL's school finance efforts are led by John Callahan, a public finance economist trained at Syracuse University's Maxwell School. With Foundation assistance and at the invitation of legislative leaders, the task force has been serving as a link between school finance experts and legislatures in states actively considering reform. The group has also been holding two-day conferences for leaders and preparing state school finance profiles in which tax effort and resources are examined on a district-by-district basis.

In 1974 and 1975 recession slowed the movement toward more equitable systems of public school finance. Declining revenues in some urban industrial states made it difficult to maintain even the current level of public services, and governors and legislators were reluctant to impose new taxes to increase state school aid. Some communities have resisted tampering with the local property tax, the one tax over which they have some control, and questioned whether the new financing schemes would cost them more money in the long run.

It is conceded, for example, that New York will eventually revise its system of school finance even though its taxing resources are strained and it is having trouble raising money in the financial markets.

Nevertheless, the issue is alive in a number of states, even those with severe financial problems. It is conceded, for example, that New York will eventually revise its system of school finance even though its taxing resources are strained and it is having trouble raising money in the financial markets. After a long legislative battle, New Jersey finally adopted a reform package in the summer of 1976, and California is expected to follow suit. Legal challenges continue in Washington, California, New York, Connecticut, and Georgia, and reform lawyers are probing for new cases and new grounds for a retrial before the Supreme Court. Studies analyzing present inequities are under way in Pennsylvania, Texas, Missouri, Colorado, California, and New York.

Michael Kirst of Stanford estimates that by the time California and Connecticut fall into line, some 50 to 60 per cent of public school students (and taxpayers) in the United States will have been affected. School finance experts expect that figure to increase to about 75 per cent by 1980—a substantial impact, indeed, when measured against other reforms in state-local public policy.

II. The Crisis in Higher Education

Since the financing of American higher education relies to a great extent on private sources of support (more than 60 per cent of the funds for undergraduate education in 1970 came from tuition and endowment income and private giving), the Foundation's efforts in higher education finance have been largely concerned with ways of maintaining and strengthening this system of private support. Activities have focused principally on privately supported colleges and universities, with whose health the Foundation has long been concerned, and have included research on the nature of their financial problems, experiments with new kinds of student loan programs, and programs to strengthen higher education management in such areas as endowment fund performance, budgeting, and resource allocation. The Foundation has also supported the work of several scholars who have examined state and federal policies related to the support of higher education.

A NEW DEPRESSION

Early in 1970 members of the Council on Federal Relations of the American Association of Universities (AAU) met in Washington to discuss a problem much on the minds of college and university presidents and administrators—the growing financial pressures in many of their institutions. The 1960s had been a period of unprecedented growth and affluence in higher education as colleges attempted to make good on the promise that everyone who was able should have access to postsecondary schooling. Enrollments had increased from 3.6 million to 7.9 million, and expenditures went from $7.6 billion to $24.9 billion. Signs of trouble began to show up in the latter part of the 1960s, and a growing number of institutions found themselves in a harried scramble to make ends meet.

Just why this was occurring was a matter of conjecture, however, and the purpose of the AAU meeting was to decide how to document and bring to public attention the nature of the problem. On the basis of evidence then on hand the members concluded that at least the very large universities were in very real financial trouble, that the federal government was not going to do much to help, and that faculties were in no mood to permit university administrations to make drastic cuts. Following the meeting the committee chairman, Harvard President Nathan Pusey, called Clark Kerr, chairman of the Carnegie Commission on Higher Education, and asked for help in ferreting out the full dimensions of crisis and how universities were adjusting to it.* Kerr agreed to coordinate a six-month study by Earl F. Cheit, an economist on leave from the University of California's School of Business Administration at Berkeley. Support for the study came from both the Carnegie Commission and the Ford Foundation.

Cheit surveyed forty-one colleges and universities (including large public and private research universities, small liberal arts colleges, and two-year community colleges) and found that nearly three-fourths were either in financial difficulty or headed for it.** He called an institution "in trouble" if it had already cut back on academic quality or services and "headed for trouble" if it was meeting current responsibilities but was not able to ensure that it could do so much longer. The situation was true of all types of institutions, but the major private universities had been hit first.

Cheit diagnosed the cause of the crisis as a widening gap between the rates at

*The Carnegie Commission was established in 1967 under Kerr, former president of the University of California, by the Carnegie Foundation for the Advancement of Teaching to study and make recommendations on the future of higher education. The commission's work is contained in twenty-one reports and a final summary volume. Its studies are being continued by the Carnegie Council on Policy Studies in Higher Education, formed in late 1973 with Carnegie Corporation support.

**_The New Depression in Higher Education_, by Earl F. Cheit. New York: McGraw-Hill, 1971.

which costs and income were rising. During the first seven years of the 1960s income for the forty-one institutions grew at between 8 and 10 per cent per year but then slowed down during the last three years because of declining growth of federal government support, gifts and grants, and endowment income. Some state-supported institutions had already experienced, and many more anticipated, reduced rates of state support. Meanwhile costs were being pushed up faster by inflation, rising faculty salaries and student aid, campus disturbances, theft, destruction of property, and new academic and community programs.

He concluded that there was a current cost-income gap of at least several percentage points per student that could not be closed except by additional funding or sharp cutbacks in academic programs and services. As to additional funding, many private institutions had already raised their tuitions to levels where they were losing students to low-tuition public universities and denying access to poor students. Public institutions were finding it difficult to obtain expanded or even constant appropriations from state legislatures, which faced increasing demands on public funds for other purposes.

"In short," said Cheit, "the small liberal arts colleges see growing evidence of financial peril; the private universities are legitimately concerned about being

*_The New Depression in Higher Education: Two Years Later_, by Earl F. Cheit (Berkeley: Carnegie Commission on Higher Education, 1973).

forced to become wealthy enclaves or to lose their important role in the discovery of knowledge; and public institutions are threatened with a serious erosion in quality."

Taking a look at the same forty-one institutions two years later, Cheit found little progress toward a long-range solution to the cost-income squeeze.* By steeply cutting back costs, mainly through holding down faculty salaries and maintenance, the institutions had achieved a plateau of "fragile stability." Of the eleven institutions in "financial difficulty," six were better off, two were in worse positions, and three reported no change. Of the eighteen "headed for financial trouble," half had improved but the other half were still in much the same situation.

ENDOWMENT PERFORMANCE

One of the income sources cited by Cheit as failing to keep up with rising costs was endowment. American colleges and universities have a collective endowment of some $15 billion (most of it held by private institutions), but the investment yield from these funds has been disappointing, in part because of the uncertain conditions in capital markets in recent years and in part because of the investment policies of endowment managers. For example, the annual yield on fifteen educational endowments averaged 8.7 per cent from 1959 through 1968, compared with 14.6 per cent for ten large mutual funds. Traditionally, college endowments have been managed by trustees who have been content to produce a modest but safe annual income through investments in fixed-yield securities. Only a relatively few institutions have entrusted their endowments to professional money managers or have followed investment policies aimed at long-term capital growth.

In 1967, at the conclusion of its special program of challenge grants to colleges and universities,* the Foundation established an Advisory Committee on Endowment Management, made up of educators, bankers, and money managers, to look into the question of how colleges and universities might obtain higher yields on endowment funds. After two years of study, the committee concluded that the record of most colleges and universities in increasing the value of their endowments could be improved.†

The committee made two recommendations: (1) that trustees delegate the task of managing endowment portfolios to professional money managers of demonstrated competence, and (2) that the financial planning of colleges and universities be reorganized so as to give the endowment managers freedom to select securities for maximum long-term total return.** By total return, the committee meant that changes in capital value, as well as in interest and dividend yield, were important in the selection of the investment portfolio, whether of common stocks, bonds, or other fixed-income securities.

If a college were to follow a total return investment policy, could it count as

*Under the special program, the Foundation granted $349 million over seven years to seventy-six privately supported colleges and universities in forty-two states, which was matched by nearly $1 billion from other sources, an unprecedented amount of private giving for higher education. The grants could be used in any way that would advance the overall development of the institutions and for the most part went toward increased faculty salaries, student aid, and new facilities. See *Toward Greatness in Higher Education*, Ford Foundation, 1964, a preliminary assessment of the results of the program.

†*Managing Educational Endowments: Report to the Ford Foundation*, by the Advisory Committee on Endowment Management. Second Edition, July 1972.

**Some readers of the report had taken this second recommendation to mean that the committee favored increased investment in common stocks, which, although they carry a higher degree of risk than fixed-income securities, have historically, over long periods, offered greater possibilities of capital growth. In the preface to the second edition to the report, Robert R. Barker, committee chairman, stated, however, that this was not the committee's intention, and the committee should have made the point stronger in the first edition. "The first change [in the original report] that I think we all would make is to state at the beginning—in dramatic and unmistakable language—that we were not recommending any particular kind of investment, whether stocks, bonds, or any other. Although the report specifically disavowed any attempt to select what might be the most attractive investment vehicles, then or in the future, subsequent public comment has made it clear that some of our readers believed that we were recommending common stocks and that some went so far as to find an endorsement of growth stocks. Thus, if we were starting over again today, I would make our disavowals as strong and prominent as possible."

income, and thus spend, the capital gains realized over many years on endowment funds? Many endowment managers had traditionally assumed that capital gains could not be spent on the theory that they were part of the principal of endowment funds and must be maintained in perpetuity. Since the law was unclear on the subject, the Foundation commissioned a companion study in 1969 by William L. Cary, Columbia University law professor, and Craig B. Bright of the New York law firm of Patterson, Belknap & Webb. They concluded that the traditional stricture that only the yield of endowment funds, i.e., interest and dividends, could be spent was not fixed in the law.* Specifically, they found that there was "no authoritative support in the law for the widely held view that the realized gains of endowment funds can never be spent," and that "the law allows the managers of endowment funds wide latitude in their choice of investments."

To remove any lingering doubt, the National Conference of Commissioners on Uniform State Laws drafted with Foundation support a model statute that permits the expenditure of as much of capital gains, whether realized or unrealized, as the governing board of the institution deems prudent under a specified standard. The statute has been enacted in thirteen states and is pending in six others.

In 1974 Cary and Bright updated their study and found a marked change in attitude among college and university trustees and administrators concerning the use of professional money managers and acceptance of the total return concept. Of 383 higher education institutions they surveyed, more than half delegated to managers outside their institutions the decision to buy and sell securities for their endowment funds. Sixty per cent believed that it was legal to spend capital gains from endowment funds that do not specifically prohibit it.

Traditionally, college endowments have been managed by trustees who have been content to produce a modest but safe annual income through investments in fixed-yield securities.

Many of the smaller colleges cannot afford professional money management, and it was with this objective in mind that the Common Fund for Nonprofit Organizations was organized in 1969. The Foundation has provided $2.8 million in operating support for the fund. The Common Fund operates two investment pools for colleges, universities, and private schools. For the first, the investment policy is the "attainment of superior long-term total return, taking into account both appreciation and income, at an acceptable level of risk." As such, it invests principally in equity securities (common stock and other securities such as convertible bonds and convertible preferreds with equity characteristics). Four investment consultants manage the portfolio, which by the spring of 1976 totaled some $105 million contributed by 226 member institutions. Institutions may invest from $100,000 to $10 million in the pool and withdraw funds according to several plans: at 5 per cent of holdings annually, actual yield (dividends and interest), or a specified dollar amount not exceeding 10 per cent of holdings. Annual yield may also be reinvested.

The second pool, the Common Fund for Short-Term Investment, was established in 1974 as an investment vehicle for current operating funds of educational institutions. It anticipates no capital appreciation but seeks the highest possible short-term current yield through investments in fixed-income securities. More than 100 colleges are participating in this fund with assets totaling $70 million.

The Common Fund also supports research on the fiscal management of educational institutions. Studies have dealt with such matters as the creation of new endowment funds through gifts tied to federally guaranteed loan funds and the determination of appropriate spending rates on endowment funds.

**The Law and the Lore of Endowment Funds: A Report to the Ford Foundation*, by William L. Cary and Craig B. Bright, April 1969. The report was updated in 1974 by the authors in *The Developing Law of Endowment Funds: the "Law and the Lore" Revisited: A Report to the Ford Foundation.*

TUITION POSTPONEMENT

As tuition fees, particularly at privately supported colleges and universities, rose to unprecedented levels during the 1960s, educators began looking for new kinds of student loan programs to meet at least a part of rising costs. One such plan, first proposed by University of Chicago economist Milton Friedman in 1945, is called tuition postponement or income contingent lending. Simply put, it allows a student to borrow a part of his educational cost and then repay it over a long period after graduation as a percentage of future annual income.

The chief advantage of income contingent lending is that it links repayment with ability to pay. Conventional student loans are usually repaid in fixed installments over relatively brief periods, thereby placing a greater burden in the early years after graduation when the borrower's earnings are at their lowest. Under contingent lending, repayments rise as the earner's income rises and the repayment period is usually longer. High earners pay more than low earners, thus "mutualizing" the risk of low future earnings. The increased borrowing made possible by such plans also shifts a greater share of the cost of education onto the consumer—the student.

The first such schemes were put into operation by Yale and Duke Universities in the fall of 1971. The Yale method, the planning of which was assisted by a Foundation grant, allowed a student to borrow from $300 to $800 annually in return for a pledge to repay the university a fixed percentage of his income for every $1,000 of indebtedness. The student has thirty-five years to repay the loan although repayment periods for most borrowers are expected to range from twenty to thirty years. No student repays more than 150 per cent of his loan, plus interest, and the less well-to-do student may be responsible for only the principal of the loan. The loan limit has since been increased by Yale to $1,900 annually.

Students who begin making payments in a given year are treated as a group, paying the same percentage of their income. When the group's total debt is repaid, all of its members are excused from further payments, even if the amounts some individuals paid were less than their individual debts.

In the first year, some 1,500 Yale students, about 18 per cent of the student body, borrowed $1.06 million, in the second year 2,300 students borrowed $2.2 million, and in the third year 2,700, nearly 30 per cent of the student body, borrowed $3 million. This participation was less than Yale officials had expected, and instead of the $25 to $30 million that the university had anticipated would be needed to finance the program over the first five years, its debt has been limited to some $6 million.

In the fall of 1974, Yale modified its plan by requiring student borrowers to take their loans under the Federal Insured Student Loan program. These loans are guaranteed by the federal government and are thus more easily financed, either through the Student Loan Marketing Association or bank lines of credit. Students are also eligible for interest rebates while in school. Upon graduation, students can either convert their loans to the long-term contingent repayment option, or remain with the fixed ten-year repayment schedule of the federally guaranteed loan. Thirty-five per cent of Yale's 1975 graduates with loans chose to convert to the contingent repayment option.

Acceptance of income contingent lending by other colleges and universities has been limited because of the plan's financial, legal, and administrative complexities and its considerably higher cost relative to federally sponsored loans. The income contingent loan concept has also been criticized on the grounds that it could encourage an even greater reliance on loans as opposed to grants and low tuition and could thus shift a greater share of the financial responsibility for higher education from society as a whole to the student. Other problems include the difficulty of predicting the actual cost of the plans due to uncertainty of future incomes and the possibility of "adverse selection," i.e., the plan is becoming overloaded with low earners.

To look into some of these questions, the Foundation in 1971 engaged a team, headed by D. Bruce Johnstone, to analyze various income contingent schemes. Drawing particularly on the analytical work of Stephen P. Dresch, on loan to the Foundation from the National Bureau of Economic Research, the team concluded that "income contingency is an exciting and potentially valuable type of loan contract which, for many borrowers, can make debt more manageable and less risky."* The report recommended a "hybrid" plan, combining a fixed payment and an income contingent obligation. The borrower would be obligated to fixed (but rising) payments over time or a per cent of income, whichever is less. For students whose incomes failed to keep up with the fixed schedule, the plan should contain some provision for forgiveness of accumulated debt, with either the government or the university subsidizing this forgiveness. Such a plan would provide protection to borrowers whose earnings turn out to be low, but the majority of borrowers would repay on the fixed schedule. The underlying fixed-schedule loan might even be made compatible with the federal loan plans, providing guarantees to lenders and interest subsidies to borrowers.

A number of states have adopted or are considering legislation for plans along the Johnstone-Dresch model, including Minnesota, Washington, Pennsylvania, and Wisconsin. Among the private universities, only Harvard and Northwestern have adopted such plans. Wider acceptance of the idea has been limited by the inability of private universities to assume the capital costs connected with the plans and the slowness of government in devising changes in national student loan policy to accommodate income-related loans.

*_New Patterns for College Lending_, by D. Bruce Johnstone (with the assistance of Stephen P. Dresch. New York: Columbia University Press, 1972. The Foundation also published the summary of their report and recommendations under the title of _Pay-As-You Earn: Ford Foundation Studies in Income Contingent Loans for Higher Education_, 1972.

Private colleges and universities have been limited in passing on their higher costs through increased tuition for fear of losing students to public-sector institutions and pricing themselves out of the range of the less affluent. Nevertheless, the drain of students from private to public-sector institutions has accelerated in recent years, particularly in those states that have invested heavily in their public higher education systems. In New York State, for example, full-time undergraduate enrollment more than doubled (from 200,000 to 440,000) from 1961 through 1970, but three-quarters of this increase occurred in tax-supported institutions. New York's 137 privately supported colleges and universities, charging tuitions three to five times more than the state-supported system, reported combined vacancies of more than 50,000 in 1971.

Other factors aggravating the financial condition of New York's private higher educational institutions were the increasing costs of goods and services, primarily salaries (which had been rising by 7 to 10 per cent annually over the past ten years), increased scholarship aid (in order that the institutions not become enclaves for the elite), and the withdrawal of federal support for graduate study and research. By 1971 the situation had become so acute that the presidents of six of the state's largest private universities—Columbia, Cornell, New York University, Fordham, Rochester, and Syracuse—called a joint press conference to declare that they faced a combined operating deficit of $30 million. They warned of the impending financial collapse of many private colleges and predicted severe reductions in their own programs if new forms of public assistance were not provided.

The deficit would have been greater had it not been for the aid provided by the state through a formula proposed four years before by the Select Committee on the Future of Private and Independent Higher Education. The committee recommended and the New York Legislature enacted a system of state aid based on the number of degrees the private institution had awarded the previous year. In 1969-70, this aid totaled $25 million. The state also provided scholarship assistance for low-income students attending both public and private institutions.

As a first step toward increasing this level of support, the Legislature in 1972 directed the State Board of Regents, the body responsible for higher education in the state, to prepare a comprehensive plan that would include an assessment of the needs of private institutions. Although the regents had been preparing four-year master plans for a number of years, these plans concentrated for the most part on the huge State University of New York and City University of New York systems. Little attention was paid to private institutions, to the impact of public-sector expansion upon these institutions, or to the best use of all educational facilities.

The preparation of the private-sector portion of the plan was delegated to the Commission on Independent Colleges and Universities in New York State, an association of 106 institutions enrolling 98 per cent of all private-sector students. In its report the commission said that unless present trends were reversed, they would lead to a weakening or closing of many private institutions or their integration into the public system, a radical reduction of the flow of private dollars into these institutions, and a staggering increase in the taxpayers' burden. The report, which was prepared with the assistance of a Foundation grant, also noted that although many private institutions were taking draconian measures to reduce deficits, the actions were clearly insufficient.* The commission projected a cumulative deficit for fifty-three of the institutions of $193 million by 1975-76 and said the deficit-

*New York University, for example, sold its Bronx campus to the state for a two-year community college, merged its School of Engineering and Science with the Brooklyn Polytechnic Institute, dismissed many junior faculty, and reduced the retirement age from 68 to 65 in order to staunch a deficit running at the rate of about $1 million a month. A $100,000 Foundation grant aided the university in planning these cutbacks.

covering capacity of these institutions was nearly exhausted. It also noted that tuition could not be increased substantially to cover the deficits without losing more students to the public system.

As the principal means of bringing costs and income into line, the commission proposed that the state reduce the differential between public and private tuition through increased scholarship aid for students from low- and middle-income families.* It proposed an increase in the maximum award of from $600 to $2,000 for the lowest-income students and to scale upwards the schedule of awards for students from families with higher incomes up to a certain limit. Although the higher awards would not equalize the competition between public and private institutions, they would help to narrow the tuition gap and open private education to a great many more low- and middle-income students.

In 1974 the New York Legislature accepted in large measure the commission's recommendation by increasing the maximum scholarship award to $1,500. In effect, the higher awards greatly reduced the tuition disparity for lower-income students between the State University of New York's $650 and the average of the private institutions of $2,650. Some $30 million more in state aid money was set aside the first year to implement the program, and at the end of the fourth year the total is expected to rise to $60 million. This aid far outstripped what other states were offering their poorer students. As a result, the private institutions in New York noted a significant jump in 1974 in applications from scholarship students and are anticipating further gains as the program gains momentum.

Other states have been slower to adopt joint planning for public and private higher education, but the trend has been clearly in that direction. Nearly forty states now provide some type of scholarship aid, and some grant larger stipends for students attending private institutions. Most states also give some form of institutional aid for higher education. However, New York remains the pace-setter, providing more education aid particularly with respect to private colleges and universities.

Private colleges and universities have been limited in passing on their higher costs through increased tuition for fear of losing students to public-sector institutions and pricing themselves out of the range of the less affluent.

FEDERAL AID

After doubling in the 1960s, federal aid to higher education began to level off in the 1970s, thus helping to widen the gap between educational costs and income. Moreover, federal assistance began to shift from programs such as language and area studies and construction of buildings to student grant and loan programs.

Federal student aid is intended to assist low-income students. But in a Foundation-assisted analysis of the 1974 federal budget prepared by the Brookings Institution, Robert W. Hartman, an educational finance specialist, found that federal student aid was not effectively concentrated on lowest-income students in part because considerable discretion is given to regional panels and student aid officers in colleges in apportioning funds.** Moreover, financial need is based on factors other than ability to pay, such as tuition of the particular institution attended by the student. As a result, Hartman found that low-income students at public community colleges received little help and that the average amount of aid did not vary greatly by income level.

Hartman suggested a modified federal student aid program that would equalize opportunity for higher education and at the same time permit the student to use his grant at whatever school he selected. Similar in operation to the government's Basic

*The commission also proposed that state institutional aid be increased, and in 1973 the Legislature adopted a new formula that doubled the amount of funds received by private colleges.

**_Setting National Priorities: the 1974 Budget_, the Brookings Institution, Washington, D.C., 1973.

Opportunity Grant Program,* the program would establish a maximum grant and a schedule of family contributions based on family size, assets, and income. The student would receive a grant equal to the difference between the maximum grant and the family's contribution.

Such a program would make it easier for low-income students to go to college but it would not lower the additional cost of attending more expensive colleges. If the latter were decided to be an important objective, Hartman suggested a further modification in which the student's maximum grant would be increased to one-half the cost of attendance at the highest-tuition institutions, less the family contribution. Such a provision could be costly, particularly if it were to bring about enrollment or tuition increases in the private sector.

Federal support for graduate education, after growing rapidly in the postwar years, dropped sharply after 1968, particularly in the area of student fellowships. According to an analysis by the National Board of Graduate Education, supported by a Foundation grant to the National Academy of Sciences, funds for graduate research from 1968 through 1973 declined in constant terms while federal fellowship and training support fell from over 50,000 to 6,600 students.** If this trend were to continue, the board warned, the nation's capability for high quality graduate education and research would be undermined.

To sustain the nation's system of graduate education, the board recommended that federal support for basic research grow at the same rate as the growth in the gross national product, and that federal fellowships, although they should not be increased to the 1968 levels, should be maintained and strengthened to reflect

*The Basic Opportunity Grant Program was authorized by Congress in 1972 to establish greater uniformity in student aid and give more emphasis to low-income students. However, the program has not yet been fully funded.

**_Policy Alternatives Toward Graduate Education_, National Board on Graduate Education, Washington, D.C., 1974.

national needs. Specifically, it proposed a federal merit fellowship program for students of outstanding intellectual potential, a program to increase participation of minorities in graduate education, and specialized training programs oriented toward such urgent social issues as energy, health care, and urban problems. As yet, no action has been taken on these recommendations.

IMPROVING EDUCATIONAL EFFICIENCY

Being labor-intensive institutions, colleges and universities are limited in the ways they can cut costs. William G. Bowen, an economist, president of Princeton University, and one of a new group of academic efficiency experts, likens universities to handicraft industries in which productivity is essentially static and not susceptible to mass-production economies. University costs, mostly salaries, rise along with the general economy and are translated into higher costs per unit of product. "Any handicrafted product," Bowen points out, "—a haircut, a gourmet meal, the education of a student—is bound to become more expensive in relation to other things that are machine-made and can be mass-produced with ever-increasing efficiency."

Supporting this diagnosis, the Committee for Economic Development, a panel of 200 leading businessmen and educators that conducts research and makes recommendations on public and social policy, noted in a 1973 Foundation-supported study that rapidly rising costs of higher education over the last decade were attributable in part to the lack of major productivity improvements. The average cost to colleges per full-time student, the study reported, rose from $1,523 in 1960 to an estimated $2,152 in 1972, which was more than the rate of inflation. Taking into account increases in enrollment, higher education expenditures rose from 1.3 to 2.7 per cent of gross national product for the same period. "These increases in the burden of higher education, which involve a shift of expenditures away from other purposes to meet college costs, are attributable largely to the failure of colleges to increase their productivity."*

While noting that productivity improvements are more difficult to achieve in education than in industry, CED urged that colleges and universities devote major attention to improving the management of their resources as the first part of an effective financial strategy. "Although the future financial health of colleges depends in part on increased revenues, it clearly requires a major dampening of the trend toward disproportionately increasing costs. Holding down costs is largely a problem of management of education resources."

However, several CED study panel members, including Theodore O. Yntema of Oakland University, Charles P. Bowen, Jr., of Booz, Allen & Hamilton management consultants, John R. Coleman of Haverford College, and Lincoln Gordon of the Woodrow Wilson International Center for Scholars, disputed the contention that labor intensiveness was a legitimate excuse for stagnant productivity in education. They argued that there were opportunities for enormous improvements in productivity "if we could get faculties to subordinate their own special interests and really focus on what students need to learn and how they can best be helped to learn. . . ." Among their recommendations were to give more students more responsibility for their own learning, to ease or eliminate pressures for research and publication on faculty members who cannot do original research, and to reduce the proliferation of courses.

One set of tools adopted by higher education institutions in recent years to better manage their resources and improve efficiency are the planning, budgeting, and management techniques developed in the postwar years initially by the Depart-

*_The Management and Financing of Colleges_, Committee for Economic Development, New York, 1973.

ment of Defense and then extended to other governmental departments and to private business. Although these approaches cannot be transferred to the university setting without significant modifications, they have helped administrators gain greater control over costs, rearrange priorities, and rationalize decisions for cutting back programs and services.

For example, Princeton was able to eliminate within two years an annual $1 million deficit by developing a new budgeting process and adopting some of the principles of the planning-programming-budgeting systems developed by the Defense Department with the aid of the Rand Corporation. Under the leadership of Bowen, then provost, and a group of systems analysts, Princeton adopted an altered budget schedule to permit simultaneous consideration of all major claims on university resources. Previously decisions on faculty salary increases, new positions, financial aid, and tuition were made throughout the year without sufficient consideration of the effects of one upon the other and on the basis of income projections made during the previous summer. The new system enabled the university to gain a clearer picture of its priorities and the growing gap between income and expenditures.

Princeton also went to a multi-year planning system in which projections were developed of future income and expenditures; it also devised a system for analyzing faculty staffing in relation to teaching requirements. A university priorities committee, made up of faculty, students, and administrators, was established to broaden participation in the budgeting process and to explain the need for selective cutbacks to the wider university community. After an extensive review of its graduate programs, Princeton thus decided to eliminate its graduate Slavic studies program because of the heavy library costs associated with it. Princeton's experience with the new budgeting and management techniques is summarized in a 500-page report, *Budgeting and Resource Allocation at Princeton University*. These activities were assisted by $440,000 in Foundation grants.

Educational administrators have been adopting modern management techniques not only in an effort to cope with financial stress but often in response to pressure from state and federal government that they account in more specific and standardized ways for the allocation of scarce public funds. The pressure has forced educators to look at their institutions as complex systems rather than a set of individual components and to justify their spending decisions in analytically rigorous ways.

Programming-planning-budgeting (PPB) is a reorganized way of presenting financial information in categories defined in terms of the objectives of the organization and what are considered to be its final results. It does away with traditional budget categories usually organized by so-called cost centers and enables decision makers to see the full dollar costs, including the costs of supporting services, associated with particular programs. For example, PPB models have been used to project the costs of admitting women undergraduates to all-male colleges. The model calculates the number of additional faculty that would have to be hired, the operating costs of the new dining halls and dormitories, the extra workload of administrative departments, and income from tuition, fees, and annual giving.

Other planning and management tools developed in recent years with Foundation support for use in higher education include:

☐ Resource Requirements Prediction Models, developed initially by the University of California under President Charles J. Hitch and adapted for use in other institutions by the National Center for Higher Education Managements Systems (NCHEMS) in Boulder, Colorado. The model enables an institution to ask "what if" kinds of questions— for example, what would happen if the university decided to increase enrollment by 30 per cent, or adopt an open admission policy, or increase

the number of students in upper-class seminars? The models in effect simulate in quantitative form the most important aspects of the university's structure and operations.

☐ Increased use of the computer to handle administrative chores and integrate various information processing functions. For example, Stanford University integrated seven different systems of information and records scattered throughout the university into one comprehensive system covering purchasing, personnel, alumni, finance, library, and student services.

☐ Curriculum management systems, which attempt to control costs and proliferation of courses by requiring professors to state the objectives of each course and its relation to the degree major and list all supporting expenses, such as supplies, laboratories, computers, travel, and departmental overhead.

☐ Educational "outcomes" research, which attempts to measure the final product of higher education, such as improvement in graduates' knowledge, creativity, communication skills, leadership, citizenship, and social conscience. NCHEMS, for example, has developed an extensive inventory for describing changes in students. Advocates of "outcomes" research, although admitting the difficulty of applying a quantitative or monetary value to the attributes they are measuring, nevertheless maintain that educators should attempt to describe in an objective way the changes they bring about in individuals to justify the allocation of scarce resources.

Attempts to measure educational "outputs" are rudimentary at best, and many educators have cautioned against substituting questionable quantitative techniques for qualitative judgments as a guide to funding decisions. For example, how is one

to measure and compare the research output of the Classics Department with that of the Physics Department? The "products" of universities are essentially educated people and knowledge, and satisfactory objective measures of how well universities are producing may never be obtained. This is not to say that analysis of the full resource costs of different programs is not valuable, even when final judgments concerning the relative value of programs are largely intuitive or based on a consensus of professional opinion.

On this point, the Princeton analysts concluded that no management system, however sophisticated, is more than an aid in the human process of making painful choices.

"A good system can clarify the nature of the alternatives, but the choices themselves must be rooted in the values of the institutions and related to a myriad of factors that are hard if not impossible to measure—especially the quality of the leadership available in one area as opposed to another. . . . Program budgets can be very valuable in helping to evaluate propositions based on what are all too often unspecified assumptions—and sometimes myths—that institutions have about themselves. But no set of numbers ever tells the full story, and the more experience one gains with techniques of quantitative analysis in a university setting, the greater the awareness of the peculiarly human nature of the educational enterprise."

"...the more experience one gains with techniques of quantitative analysis in a university setting, the greater the awareness of the peculiarly human nature of the educational enterprise."

By 1975 the financial condition of higher education had grown worse. In a survey of some 1,200 colleges and universities in the year before, the Carnegie Council on Policy Studies in Higher Education found that 10 per cent expected to undergo radical change, such as merger, consolidation, or closure over the next five years. The problem was not simply the slowing of enrollment growth but that it had occurred simultaneously with a serious recession in the general economy. Symptoms included the declining demand for faculty members, decreased opportunities for advancement of younger faculty members, failure of faculty salaries to increase with the rise in the cost of living, and reductions in governmental outlays for university research and new building construction. Higher education spokesmen increasingly called upon Congress and state legislatures to reform student aid programs and increase higher education subsidies. Others urged colleges and universities to improve their productivity by increasing student-teacher ratios, eliminating esoteric courses, adopting more efficient administrative procedures, and cooperating with neighboring institutions on academic programs.

Thus, in higher education and in the public schools, questions concerning the adequacy and equity of educational finance are expected to be on the public agenda for many years to come. Although America's commitment to fairness and equal educational opportunity is a strong constant in our national life, the issues surrounding the way society pays for education are complex and cannot be divorced from considerations of how well students are being educated. More money is needed in both public and higher education, but it must be combined with other elements of policy and planning to guarantee educational quality. Educational reform thus goes beyond questions of financial equity and adequacy to even more difficult problems such as educational quality, diversity, and efficiency. The search for answers on all these issues will require the continuing efforts and best thought of many individuals and institutions. The Ford Foundation intends to continue its support of these endeavors.

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Appendix: Ford Foundation Grants—Educational Finance and Management, 1968-1976

PUBLIC EDUCATION

Advisory Commission on Intergovernmental Relations	
Conference on full-state funding of public education (1971)	$ 18,000
Board of Education of the City of Los Angeles	
School finance information system (1974)	206,051
University of California (Berkeley)	
Research, training, and dissemination in educational finance, economics, and law (Childhood and Government Project) (1973, 1974)	1,977,000
University of Chicago	
Training and research in the economics and politics of public school finance (1974)	146,000
Citizens Commission on Maryland Government	
Study of state responsibility for financing and management of public education (1971)	62,100
Council of State Governments	
Technical assistance and training for state legislative leaders in public school financing and taxation issues (1974)	232,000
District of Columbia Citizens for Better Public Education	
Study of allocation of educational resources (1975)	80,022
Education Law Center	
Implementing and monitoring judicial decisions affecting education (1973, 1974, 1975)	1,125,000
Educational Testing Service	
Center for Statewide Educational Assessment (1972)	250,000
Educational Policy Research Institute (1976)	474,750
Harvard University	
Study of the interrelations among social class, educational process, and economic outcomes of education (1973)	180,000
Lawyers' Committee for Civil Rights Under Law	
Technical assistance in reform of school finance (1972, 1973, 1976)	1,062,153
League of Women Voters Education Fund	
Citizen education regarding school finance reform (1973, 1975)	276,662
Middle Cities Education Association	
Analysis of the effect of 1972 school finance reforms on city school districts in Michigan (1975)	58,020
National Academy of Education	
Establishment of committees of scholars on anthropology and education, and on the economics and financing of education (1972)	57,500
National Urban Coalition	
Legal and fiscal studies of funding for urban education (1969)	179,850
Technical assistance to minority groups involved in school finance reform (1973, 1974)	807,300
New Detroit, Inc.	
Studies of the financing, management, and instructional programs of Detroit public schools (1973, 1975)	378,400
Training of minority students in school finance (1976)	98,000
Oregon State Legislature	
Study and development of a school finance data system (1974)	145,000
Rand Corporation	
Analysis of fiscal, governmental, and educational implications of the *Serrano* decision (1972)	179,875
Rutgers University	
Study of judicial involvement in school finance reform in New Jersey (1975)	24,000
University of Southern California	
Analysis of the relations between property tax wealth and household income in California, and the impact on low-income taxpayers of alternative school finance systems (1974, 1975)	97,781
Stanford University	
An analysis of the economics of educational voucher plans (1970, 1972)	81,120
Training and research in public school finance (1974, 1976)	262,900
State of Florida (Citizens' Committee on Education)	
Study of educational financing and management (1972)	92,397
State of New York	
Studies of state school finance and property tax problems (1975)	180,000

Syracuse University (for the Maxwell School)	
Research and training in the economics of education (1972)	300,740
Syracuse University Research Corporation	
Study of the effect of federal aid on urban schools (1969, 1970)	336,625
Teachers College, Columbia University	
Training and research in public school finance (1974, 1976)	408,000
HIGHER EDUCATION	
American Council on Education	
Surveys and analyses on alternative methods for determining instructional costs (1974)	$ 248,650
Association of American Universities	
Studies of financial status and prospects of 26 major public and private universities (1971)	12,338
Brookings Institution	
Research on the relations between Federal aid and state support for higher education (1972)	53,720
California Institute of Technology	
Analysis of costs of private higher education in California (1968)	25,000
University of California (Berkeley)	
Systems analysis for university management (1968, 1971)	750,000
Study of the state budgeting process by the Center for Research and Development for Higher Education (1973)	227,747
University of California (Irvine)	
Research on effective use of higher education resources (1969)	130,000
College Entrance Examinatoin Board	
Task force on student aid problems (1974, 1975)	35,000
Committee for Economic Development	
Policy statement on management and financing of colleges (1971)	75,000
Common Fund for Non-Profit Organizations	
Investment pool for private colleges and universities (1969, 1972, 1973)	2,800,000
Corporate 1% Program for Higher Education	
Corporate aid to higher education (1968, 1974)	275,000
Foundation-managed projects	
Study of financial status of American higher education (1970)	20,000
Studies and demonstrations concerning contingency repayment systems for student loans (1971, 1973)	235,646
George Washington University	
Establishment of a program budget (1969)	163,000
University of Georgia	
Development of program planning, budgeting, and management information systems (1969)	250,000
Great Lakes Colleges Association	
Study of student aid and loan policies (1971)	23,247
Massachusetts Institute of Technology	
Establishment of office of systems analysis and studies of management systems (1969)	466,000
National Association of College and University Business Officers	
Development of accounting standards for higher education institutions (1974)	43,900
Research on measurement of endowment investment performance (1974)	45,200
Development of costing and planning models for open learning systems (1975)	47,650
New York University	
Planning for a major university reorganization and retrenchment program (1972)	100,000
University of the State of New York	
Analysis of educational costs and income sources of New York State graduate students (1975)	40,000
Princeton University	
Studies on resource allocation and decision-making (1968, 1971)	440,000
University of Toronto	
Research on systems to improve resource allocation (1968)	749,852
United Negro College Fund	
Research on "Pay As You Earn" program (1971)	30,000
College of Wooster	
Study of cost data of institutions of higher education (1968, 1970, 1973)	46,396
Yale University	
Planning of tuition postponement program (1971)	100,000

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